RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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July 29, 1987 **LETTER 970**

July 17 DJIA 2510.04; PTI 2668; A-D Ratio -4.71
July 24 DJIA 2485.33; PTI 2664; A-D Ratio -5.49

THE PICTURE: The price action remained much the same last week as it has been ever since early June. The stock market goes up rather raggedly with breadth and new highs lagging. But the reverse side of the coin is that the market also goes down with the same lack of conviction. Perhaps the best analysis of what's happening is provided by one of my technical studies which shows that (1) market rallies have been set off by a drop in selling pressure rather than any real rise in buying power, and (2) market declines have been set off by a drop in buying power rather than any real rise in selling pressure.

Probably the main problem facing this market is the now flagrant (four-month) divergence between price (i.e., the Dow) and breadth (i.e., the advance-decline ratio). This is a technical situation which, in the past, has signaled trouble. But despite the lagging breadth, the lagging Utility Average, and the lagging new highs, my Primary Trend Index (PTI) has continued to hold to its stubborn bullish trend.

Sooner or later this whole stalemate must end. Nevertheless, for stock market students and seasoned investors, the month of July has produced a few items of extraordinary interest.

Consider the following: The D-J Industrial Average recorded a low of 1086.57 on July 24, 1984. It then started up in what was to be an historic advance. As of July 25, 1987, *the Dow had risen for three full years without so much as a 10% intervening correction. In the 91-year history of the Industrial Average, this had never happened before.*

Now consider this: From its 1086.57 low of July 24, 1984 the Dow had risen to a record high of 2510.04 on July 17, 1987. *This was an advance of 131% without so much as a 10% intervening correction. In the 91-year history of the Industrial Average, this had never happened before.*

What does all this mean? To me it simply means that the Dow has produced an amazing record advance which could go even higher. Nevertheless, pushing Wall Street records to yet greater records is not easy, and for this reason I continue to feel caution is warranted.

For those who are interested in <u>return on investment</u>, the following statistics should be studied carefully. As of the July 17 close, the Dow was selling at a bloated 19.8 times earnings to yield a minute 2.74%. This represents one of the thinnest Dow yields on record. At the same time the much broader S&P 400 Industrial Average was selling at 24 times earnings to yield a minute 2.34%, lowest yield for this broad Average in history.

Stock yields may be considered on an absolute level or stock yields may be compared with bond yields. The bond comparison: Against the current 2.74% Dow yield, the tax-free Bond Buyer Municipal Bond Index is currently yielding 8.28% while the D-J 20 Bond Average is yielding 9.86%.

UTILITIES: I've received many questions about the lagging D-J Utility Average, and I feel this is a good time to offer a few comments. The Utility Average was first introduced in 1929 -- long after the Dow Theory was formulated. This is probably the main reason why the Utilities were never incorporated into Dow Theory. Nevertheless, I have found the Utility Average to be a useful stock market barometer, particularly since the Utilities (which tend to have heavy debt structures) are so sensitive to interest rates.

The history of the Utility Average as an "advanced signaler" of market tops is both interesting and instructive. So let's go over a bit of that history.

A bull market began in July 1932 and continued for five years. In October 1936 the D-J Utility Average topped out. <u>Five months later,</u> in March 1937, the Dow topped out. This was followed by the famous 1937 crash.

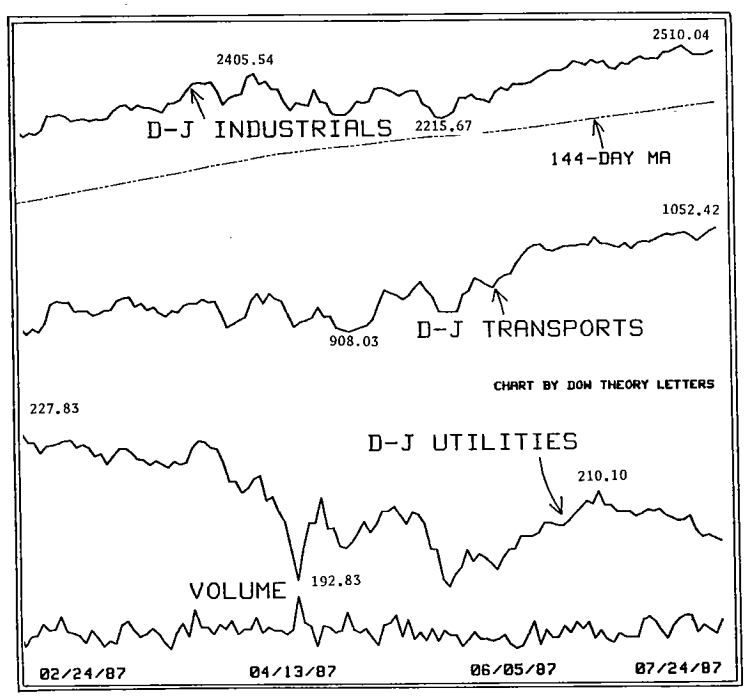
A great bull market began in June 1949 and lasted into the 1960s. The Utility Average topped out in April 1965. Ten months later, in February 1966, the Dow hit its high. This was followed by a long and tortuous bear market.

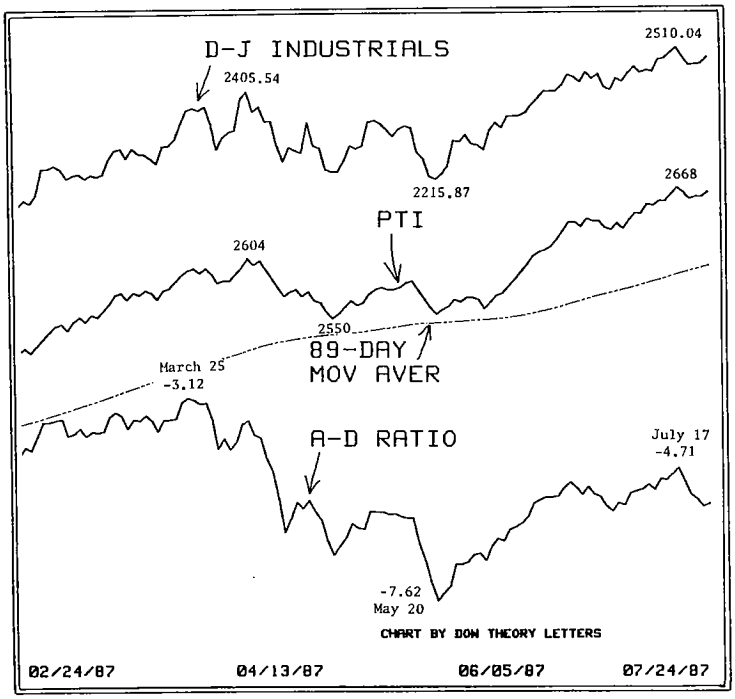
The Utilities hit a high in November 1972. The Dow continued on to a high (two months later) in January 1973. This was followed by the devastating bear market of 1973-74.

More recently, the Utilities hit a peak on January 1981. Three months later the Dow hit its high. This was followed by a vicious correction which lopped 248 points off the Dow.

Again, the Utilities hit a high in October 1983. A month later the Dow hit its high. This was followed by a correction of 201 Dow points carrying into 1984 (the Dow hit a low of 1086.57 in July 1984).

To bring the study up-to-date, the market turned up in July 1984, and a major advance followed. The Utility Average recorded a high of 227.83 on January 22, 1987. Six months have now passed, and that Utility high still stands. The question: Is the Utility Average





issuing another one of its warnings? Based on past history, I would have to guess that it is (unless, of course, the Utility Average can rally to a new high above 227.83 in the period ahead -- a feat that I must say would surprise me).

OVERVALUATION: I've been writing a lot about overvaluation, so the question arises, "What do you mean by overvaluation?" I gauge overvaluation by the classic method, and that means yield or the return on investment. Over the entire history of the stock market, nothing has proved more effective in identifying broad overvaluation (top) areas than the yield on the Dow. And nothing has been more effective in identifying bargain (bottom) areas than the yield on the Dow.

For that reason, a study of the yield cycle on the Dow might be instructive here. In late-1929 the yield on the Dow dropped to 3.1%. This low yield identified an area of extreme overvaluation (as market action a few months later revealed most dramatically).

Then in the great bear market of1932 Dow yields rose to 10.2%, an area of extreme undervaluation (1932 proved, in retrospect, to be the greatest buying area of the century). A new bull market began in July 1932. By 1936 Dow yields had sunk to 2.8%. The bull market top was reached a few months later in early 1937.

A severe bear market began in March 1937. By 1942 yields had risen to 7.8% and again a great buy area was identified. From the famous 92.92 Dow low of April 1942, a new bull market was born (amid the depths of World War II).

The 1942-46 bull market produced the greatest unabated rise in breadth in stock market history. The bull market topped out in May of '46 with Dow yields at a low 3.2%. An extended and tortuous bear market followed, ending with the juicy 6.9% yields of 1949 (again, a great buy spot for stocks).

From the June 1949 bottom, an historic new bull market began. The bull market was fated to last an unprecedented 17 years. By 1966 the Dow yield had fallen to 2.8%. That proved to be the top for the great 1949-66 bull market.

The next stop in the yield cycle occurred in late-1974. The bear market of 1973-74 cut the Dow's value in half and pushed the Dow yield up to the 6.4% level. Of course we now know that 1974 was another fabulous buying area for common stocks.

All of which takes us to the present. Today the yield on the Dow is down to a minute 2.74%, the lowest level for a bull market in this century.

Does this mean that the bull market is on its death bed? Not necessarily. Remember, the old Wall Street adage which states that "the market can do anything." So despite the well-documented history of the yield cycle, we must keep in mind that this is one of those times when the stock market seems intent on defying history.

Note: Recently Warren Buffett, the most successful investor in the US, stated that *if you like a stock enough to buy it, you should be willing to watch that stock drop 50% and still be able to hold it with equanimity*. That's good advice when stocks are great values and on the bargain table -- but I wouldn't try it here!

INVESTMENT POSITION: The bull stays in the box. I've shorn him of a horn for the simple reason that a Dow yielding 2.7% is on thin ice -- at least it is if history means anything.

As I write this I'm thinking back, and I don't know, maybe I'm growing a bit cynical. Here's what I'm thinking. I bought Exxon for my kids back in 1982 at a price of 29. At that time it was paying $3 and yielding over 10% (I mentioned in the Letters at the time that Exxon was selling like a cheap bond and it was a bargain, in my opinion). Then I noticed last week that Shearson Lehman in their big weekly advertisement was recommending Exxon as one of their three top favorite stocks. Today Exxon sells at 94 and pays out $3.60 for a yield of 3.8%. So Exxon is one of the better-yielding Dow stocks, but c'mon, Exxon is now up 224% without a correction and the guys at Shearson are recommending it. It may work out, but you need faith, folks.

I continue to believe that the only action worth taking here is profit-taking. At this point most of my subscribers (those who listen to me) should be down to about two-thirds of their top position in blue-chip stocks. In other words, if you had $100,000 of blue-chip stocks at the end of 1986 you should have about $65,000 of blue-chips now.

You might look at it this way. For the public, a bull market works like an inverted pyramid. At the beginning of a bull market the public isn't in the market. But at the top of the bull market the public is in big with the widest part of the inverted pyramid representing the public.

But for the seasoned investor, a bull market works like a normal pyramid with the widest part of the pyramid at the base. At the beginning of a bull market (i.e., the wide base of the pyramid), the seasoned investor loads up with stocks because he realizes that those stocks represent great values. At the top of the bull market (i.e., at the point of the pyramid) the seasoned investor is almost out of the market. He's out because he's a student of values, and he's selling, not buying, stocks that yield 3% or less.

CHARTS: I keep about 50 ratio charts of various averages, indices, and items on a weekly basis. These charts, more than almost anything else I do, provide me with a feel for what's going on in the various markets. Note that these are all ratio (percentage) charts, which means that all items can be properly compared as to rate of advance or decline. (See page 3 for charts.)

What item boasts the steepest rate of advance on the list? Believe it or not, its the 1987 advance in the British market, as you can see on the chart.

What's the most interesting and perhaps most significant reversal? It's the recent reversal in the dollar to the upside, following the buck's long, unabated decline since 1985.

What's the least advertised new series of highs on my list? It's the successive new highs on Barron's Low-Price Stock Index (who says there isn't any speculation in this stock market!).

What are the "do nothing" or lagging items on my charts? There are three. The first is the NYSE Financial Index, an index which includes ALL the financially related stocks including S&Ls, bank stocks, brokerage houses, insurance, small loans. This index has gone nowhere since early 1986.

The second item is the CRB Commodities Futures Index. Despite its recent rally, the Index is still below its high of early 1986 -- and that's hardly a forecast for inflation.

The final "do nothing" index on my list is the advance-decline ratio. Currently, the ratio (which is a proxy for all the stocks on the NYSE) is just slightly above its high point of early 1986 (which goes a long way towards explaining why the general public is not more excited about this market).

QUESTIONS, ANSWERS: Question: Why are there only 30 stocks in the Dow Jones Industrial Average?

Answer: The D-J Averages were formulated before the turn of the century. The first average was published in Dow's "Customer's Afternoon Letter" and it consisted of 11 stocks. On Feb. 16, 1885 Dow published an average of 12 railroad stocks and two industrials. On May 26, 1896 the first average of all industrials appeared, consisting of 12 industrial stocks.

The number of stocks in each average was kept small because of the difficulty of computing. All of the computing in those days was obviously done by hand.

As far as the current D-J Industrial Average is concerned, the 30 stocks in the Dow are added up each day and then multiplied by an adjuster. The adjuster takes into account stock splits, stock extras, and substitutions in Dow stocks.

The daily high and low for the Dow is a theoretical figure based on the highest intra-day price of each stock and the lowest intra-day price of each stock in the Average.

The D-J Averages are copyrighted by Dow Jones, and in theory at least, they may only be used by permission of Dow Jones. Dow Jones, by the way, would not allow the use of their Averages for options or futures purposes.

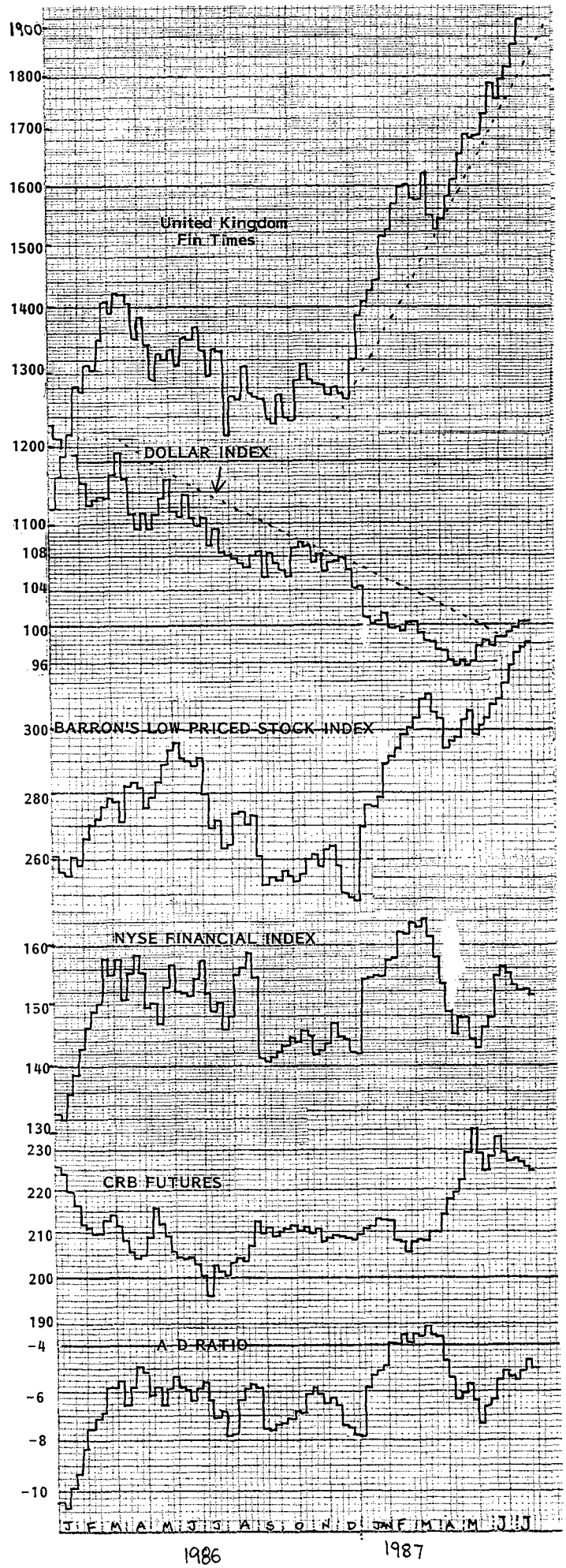
Despite all the many objections to the D-J Averages, they remain by far the most widely used market gauges, and the only ones that have a 93-year daily history in real time.

Question: Last week the Japanese Nikkei 225 Average dropped 650 points in a single day, the third biggest drop in its history (equal to 65 points on the Dow). Yet many opined that this was bullish for US stocks since investors, if they get scared out of Japanese stocks, will switch their money to the US market. What do you think?

Answer: The primary trend -- and most important secondary trends -- tend to be international in scope. Whatever affects a major market such as Japan's *will also have an impact on the US market.* If Japan's market is going into a major secondary correction or a bear market, it will definitely be bearish for Wall Street.

Question: Russell, what do you consider the best value investment today?

Answer: The criteria of any investment is its *safety*, its *return on the investment* and its *appreciation* potential. On that basis, I would have to vote for shorter-maturity municipal bonds. Better grade muni bonds are tax-free and are reasonably safe, but probably lack appreciation potential.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DOLLAR INDEX
BARRON'S LOW PRICED STOCK INDEX
NYSE FINANCIAL INDEX
CRB FUTURES
A-D RATIO
J F M A M J J A S O N D J F M A M J J
1986
1987

Nevertheless, Standard & Poor's lists the dividend yield on the broad S&P 500 at 2.83% while it lists the interest yield on its Municipal Bond index at 7.77%. The tax-free yield on the bonds is therefore 2.74 times the taxable yield on stocks.

Assuming no change in price in either stocks or bonds, the bonds are the obvious bargains. On the comparison of safety and return on investment, the bonds are the winners. The big question is "which way are stocks and bonds going in terms of price?" Unfortunately, nobody has the answer to that one. However, history suggests that at a tiny 2.83% yield, the S&P is flagrantly overpriced, so my guess is that the upside for stocks is limited.

On the other hand, many investors fear inflation or a financial crisis, either of which would be bearish for bonds. So the bond investor at this point hopes that bonds merely stand still while he collects the tax-free yields. On the other hand, the investor in stocks hopes that stocks rise so that he can be compensated for the skimpy taxable yields. Which investor is liable to be ahead in a year or so? My guess would be the bond buyer.

Of course there is one group that may be the smartest of all, and that is the group that opts to hold cash, T-bills, a money market fund or a muni cash fund. Here one sacrifices appreciation potential and income for safety.

So on a pure value basis, I would place muni bonds at the head of the investment list. For appreciation potential, I am not enthusiastic about any category today. For safety, I would opt for the cash category.

"But," you ask, "what about cash if the dollar collapses?" The hedge factor here is to own gold or a foreign currency. You see, investing isn't as easy today as it was in the 1920s and '30s when you had the simple and clear alternatives of stocks or cash. Now you have to worry about the value of the US dollar as well. But that's the price we have to pay for 40 years of high living on borrowed money. We can't have it all. Not when we've been on an inflationary party-binge ever since World War II. The sad fact, you see, is that this nation has already had it all.

RUSSIA: Could this article from the July 15 Christian Science Monitor be the most important newspaper article of the year? It just could be. The Monitor specializes in international news, and it does largely its own reporting (very few wire-service articles). But I thought this piece was tremendously important, and it fits in with what I've been writing about (regarding Russia) all year.

Soviet shift in world policy

Revision of long-held view – of West as constant military threat – seems sign of new Soviet flexibility

By Paul Quinn-Judge
Staff writer of
The Christian Science Monitor

Moscow

Soviet foreign policy is undergoing the same fundamental reassessment as domestic programs, according to Yevgeny Primakov, a senior Soviet official.

The Soviets have adopted what Mr. Primakov calls a new philosophy of foreign policy. This, he said in an interview with the Monitor yesterday, includes a more flexible and responsive approach to issues, more attention to public opinion both in the Soviet Union and the West, and ultimately lower defense expenditures.

One of the key changes, however, is ideological. A longstanding assumption of Soviet foreign policy – that Western capitalism will almost inevitably develop into a military threat to the Soviet Union – has been dropped, Primakov suggested.

Primakov is director of the Institute of World Economics and International Relations, the country's leading foreign policy think tank. His predecessor in this position was Alexander Yakovlev, now a full member of the ruling Politburo.

Soviet envoys in Israel
Busy consular team garners media attention.
Page 9

Primakov is a candidate member of the Communist Party Central Committee, and is believed to be close to party leader Mikhail Gorbachev. He has been known until recently as a specialist on regional affairs, but has apparently assumed a broader brief. And in yesterday's interview, he answered questions on Soviet-American relations, arms control, and the Soviet attitude toward defense.

The ideological change outlined by Primakov essentially lessens the Soviet Union's perception of the risk posed by the the West. It thus broadens the long-term prospects for cooperation between the Soviet Union and the West, Primakov believes. It should also eventually permit a signifi-

Please see SOVIET page 10

The Russians are now "Westernizing" under Gorbachev, and what's happening there is revolutionary. In fact, in the July 17 Wall Street Journal there was a front-page article which notes that the Russians are now encouraging foreign firms to set up profit-making joint ventures in the Soviet Union.

But here, in the Monitor interview, is Yevgeny Primakov, a senior Soviet official who is close to Gorbachev, saying that Russia is dropping its long-standing assumption (an assumption which has always been an integral part of the Soviet's paranoid foreign policy) that Western capitalism is a military threat to Russia. If this is true (and I suspect that it is), then somewhere ahead we can expect a major move towards a reduction in defense spending in both Russia and the US.

If so, this would be an extremely constructive turn of events. Defense spending is the biggest waste of money, the biggest destroyer of capital, and the most immoral pursuit known to man. So if the Russians under Gorbachev drop their paranoidal fear of the West and decide to cut back on their military, it could be the initial step in world disarmament.

Does this all sound a bit off-the-wall? Perhaps, but (1) I know, and many US economists know, and Gorbachev knows that the US and Russia are both going broke through massive arms spending, (2) Gorbachev is of a new generation, the first Soviet leader who did not grow up under the specter of Western invaders, (3) Gorbachev is "normal" in the Western sense as opposed to paranoidal previous Russian leaders from Stalin to Khruschev to Kosygin.

Conclusion: Watch for new events on the disarmament front. Reagan badly needs a political victory following the disastrous beating he's taken via the Iran-Contra hearings. Gorbachev is on-the-line as to building up both Russia's productive capacity and its consumer economy. He can't do it with the onus of the huge Soviet military spending program. A dramatic new disarmament treaty would serve both leaders. It could happen.

PHILOSOPHY: Sooner or later if you want to survive (or at least remain sane) in the investment business, you have to develop a philosophy. What works for me may not work for you or for the next person, but here are some of the thoughts that I have put together over the years. I guess you can label them the "Russell investment philosophy."

(1) I intend to be in this business a long time (I've been writing this Letter for 29 years already), so I might as well face the fact that I'm not going to be brilliant all the time (in fact, I'd quickly settle for being brilliant just part of the time). In other words, I'm doing the best I can, and that's all I can do. Many years ago I stopped trying to be "the hottest hand" on Wall Street. Believe me, I've seen too many hot hands come and go. Let me put it another way: "There are no geniuses on the Street -- there are only geniuses for a while."

(2) In managing my own and my family's accounts, I always keep in mind that compounding is surer and safer than speculating. In speculating, I am trying to beat time. If you are young and you have time on your side, compound rather than speculate. With compounding you will beat your speculating neighbors by a mile -- in due time.

(3) If I'm not sweating when I make a purchase, I'm probably going to be wrong. The great buys are always "hard buys." That's because when stocks or bonds or real estate are great buys, it's because nobody wants them, and the same black sentiment that causes nobody to want them will rub off (at least on an emotional basis) on me.

When stocks are great values (as they were, for instance, during 1974 or 1982) there are other factors which suggest that you shouldn't touch them. Yet the best and safest time to buy stocks is always when those stocks represent great values based on book value, price/earnings ratio, and dividend yield.

(4) It's OK if I don't perform as well as the best fund managers or even as well as the major averages. Playing it safe often entails giving up something else, and most often that "something" is performance.

(5) Being "fully invested" is a great policy during a bull market, and many of today's mutual funds boast that they remain fully invested at all times. But insistence on being fully invested becomes a disastrous policy when a bear market hits.

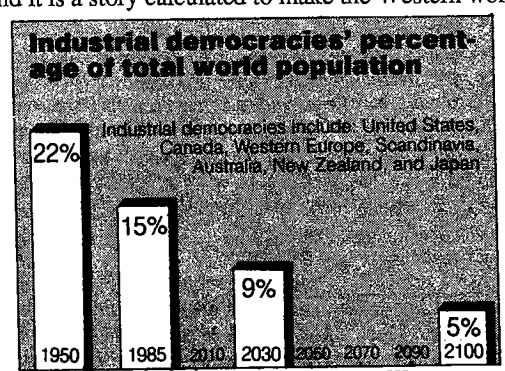
(7) A veteran in this business is one who has gone through a full bull and bear cycle, and preferably more than one full cycle.

(8) If you are an investor (as opposed to a speculator) you must develop a plan and you must stay with that plan. The catch, of course, is that it must be a workable plan.

(9) It's almost impossible to arrange one's finances so that they are 100% disaster-proof. The reason is that no two disasters are the same, and most investors try to immunize their portfolios against a repetition of "the last disaster."

(10) Face the fact that no method or system works all the time in the stock market or in any other market. The best systems work most of the time. When a method you've used for years starts malfunctioning, don't force it "to work." Realize that it's just not working and turn to something else.

NOTES & QUOTES: "Birth Dearth" by Ben Wattenberg (Pharos Publ.) is a new book that is causing quite a stir. The gist of the book is that the West is "putting itself out of business" via its declining birth rate vs. the rest of the world. This chart tells the story, and it is a story calculated to make the Western world pause.



Source: "World Population Prospects" (United Nations, 1985); "World Population Projections 1984" (World Bank).

According to Wattenberg, the Western ideals of democracy, freedom, and equality could easily be lost since the way things are going the West's population will soon be only a tiny fraction of the world's population. Wattenberg states that West Germany is already experiencing an absolute population decline, and this may be the bellwether for the rest of the West. Mmmmm.

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The current joke in Texas is that the name should be spelled "Taxes." The Lone Star State has just passed a two-year $5.7 billion sales tax hike, the biggest tax boost ever for any state. The Texas state tax will rise to 6 cents from 5.75, which together with other local taxes will combine to about 8% in many major cities. But hey, Texas subscribers, don't send your complaints here. In California we have a fat state income tax PLUS a 6% sales tax. As I've said so often, you really have to love California to live here. (I guess I shouldn't complain, New Yorkers have a fat state income tax, a sales tax, and a NY city tax, and they have to put up with the weather and the subways to boot!)

* *

Despite what you hear and despite communism's avowed aim of converting the world, the forces of democracy are burning surprisingly strong. In the Philippines, strong man Marcos has been ousted. In Hong Kong, the people are now pushing for direct legislative elections, this despite the opposition of China. In South Korea, mass protests have greeted the dictatorship, and it would appear that democracy could be just around the corner. And in Taiwan, relaxation of military law is occurring.

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Trivia Dept: The west coast produces white eggs from Leghorn hens. The east coast produces brown eggs via Plymouth Rocks and Rhode Island Reds. The east coast is winning out in the egg export business to China and Hong Kong because Asia prefers brown eggs. Why brown? Because brown eggs have thicker shells and they therefore ship better. And also (would you believe) because white in Chinese signifies death while brown signifies life.

* *

The five best films I've seen this year: "Full Metal Jacket," "Platoon," "She's Got To Have It," "Something Wild," "To Live and Die in L.A."

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Steal American: When it comes to the most popular cars to steal, eight out of 10 are US cars and GM makes the cars they love to swipe. No. 1 in theft rate is Pontiac Firebird, second, Chevy Camaro, then Mazda RX-7, Chevy Corvette, Buick Riviera, Chevy Monte Carlo, Buick Regal, Pontiac Grand Prix, Cadillac Eldorado, Toyota Supra. Top theft cities are Detroit, Newark, Southfield, Mich., Boston, Irvington, NJ (from FBI statistics).

* *

Mini Report: Mini skirts, mini meals, and now the Farm Equipment Mfg. Assoc. (St. Louis) reports that Mexican scientists have bred a mini-cow measuring no more than 2 feet from hoof to head. The cows are capable of producing 3 quarts of milk per day. They are so small they can be kept on the terrace of an apartment, says the report, and they can provide Mexican families (which tend to be short of dairy products) with the milk they need. That's what the report says.

* *

What's the fascination of the movie business? Here's an example: Warren Beatty and Dustin Hoffman, two top (bankable) stars, get together to turn out a $40 million dollar (cost) "sure thing." The film turns out to be a total dog. Next case: Paramount buys an unheard-of film from an Australian company for $4 million. The movie, "Crocodile Dundee," grosses $171 million in nine months. Third case: A film about naval flyers is turned down by Paramount. A different Paramount management, under Chairman Frank Mancuso, decides to make the film. The film is "Top Gun" which grosses $176 million plus an unbelievable $45 million in VCR rentals.

* *

US Law: Do 775,000 American lawyers generate law cases? Judge for yourself. In 1970 there were 87,300 civil lawsuits filed in Federal courts. Last year there were 254,800 civil law suits filed.

* *

Senator Willam Roth Jr. of Delaware is urging his colleagues to reject all tax increases. Why? Because according to a new study which he has just completed, federal spending will increase $1.58 for each new dollar of tax increase. In other words, higher tax receipts don't reduce deficits, they increase spending.

* *

MIAMI: Two new books have just been published about Miami, "Miami, City of the Future" (T.D Allman) and "Going to Miami" (David Rieff). On top of that the NY Times Magazine (July 19) features a a cover story entitled "Can Miami Save Itself?"

Old time Miamians are a bit worried, and the reason is an influx of 700,000 Cubans, plus thousands of Salvadorans, Nicaraguans, etc., all speaking Spanish. Every kind of opinion is now being advanced about the future of Miami. Some see it as the golden gate of commerce between the US and Central and S. America. Others see it as an incomprehensible Tower of Babel fraught with danger and the unknown. The Times book review notes that "local Anglos are seen clutching their copies of 'Miami, City of the Future' with the same hopefulness that 5th century Romans, whose city was set upon by alien hoards, clutched St. Augustines 'City of Gold'."

* *

Good News! Ferrari has just announced that its F40 Le Mans is out. Patriarchal founder, 89-year old Ezio Ferrari, said the company's new 8-cylinder 3-litre Pininfarina designed car is capable of 200 mph. Price will be $180,000 plus $68,000 in Italian taxes.

GOLD: I've been writing a page 6 gold piece ever since 1961. Times have changed. Up to about 1975 I spent a lot of time writing about why gold was real money, why the US government was paranoidal in their "barbaric relic" attitude towards gold, why the US government would lose its battle to keep gold from US citizens, and why my subscribers (despite their brokers' objections) should buy gold stocks and US Double Eagles (some of my older subscribers still have those old Eagles which were selling for $65 back in the 1960s and early '70s and were perfectly legal to own).

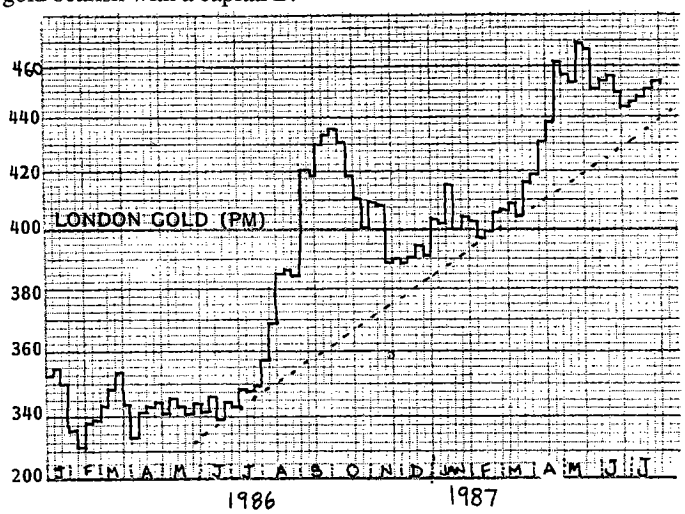
Today, things are different. The US government has thrown in the sponge in its insane battle to keep gold out of its citizens' hands. Well, Uncle Sam has partly thrown in the sponge in its usual schizophrenic way. The Treasury now mints gold coins and encourages us to buy them. But our government also still values its US gold stock at $44 an ounce, rather than at the market price which is in the 400s. Well, I guess you can't expect Washington to be totally logical, and halfway there is better than staying in Looneyland.

The other change is that today US citizens have a somewhat better understanding of gold and its uses. The average man or woman sees the US and world money supply growing, they see the US and world debt growing, they've already seen our big US banks write off billions of dollars in worthless loans, and forward-thinking Americans are beginning to think in terms of a mass writeoff in all kinds of loans somewhere ahead.

The ancient Hebrews celebrated a "year of Jubilee" every 50 years. That was the year when all debts were wiped out, and the nation started over again. Deep in their hearts Americans are wondering if there won't be a modern year of Jubilee. The difference will be that this time Jubilee won't come via government edict, it will be thrust upon us.

If or when that day comes, gold will still be around, and we'll be able to swap it for "new dollars" or new yen or new something, depending on what kind of paper our new Treasury secretary decides to issue. And that's the prime reason why my subscribers and I continue to buy gold coins on a monthly basis. It's not that we're born collectors; it's because we know a little something about history.

The weekly gold chart (ratio scale) shows gold climbing steadily up its rising trendline. It would take a break below 420 to reverse the upward trend of gold. And it would take a close below 388 to turn gold bearish with a capital B.



This month, instead of buying my usual quota of gold coins, I bought an equal dollar amount of platinum Nobles. These are the 1-ounce platinum coins minted on the British Isle of Man. The production./consumption equation for platinum is more favorable than gold -- more platinum is now being consumed than is being produced. Morever, the Free World is much more dependent on S. Africa for platinum than it is on S. Africa for gold (roughly 85% of the world's platinum comes from two mines in S. Africa).

How do you buy the Nobles? Buy them through your local coin dealer. If your dealer doesn't stock them (and he probably doesn't), he can give you an immediate price quote and then order the Nobles through his wholesaler. If he can't do that, get another dealer, you're working with a numskull.

Selected no-load (stock) gold funds:

Lexington Goldfund 800 526 0057
United Service Gold Shares 800 824 4653
Vanguard Special Gold 800 662 2739
Financial Strategic Gold Portfolio 800 525 9831

LATE NOTES: The markets are now being analyzed and attacked by literally hundreds of thousands of speculators. The markets are being dissected by computer programs, by relative strength investing, by momentum analysis, by options, by futures, by every kind and variety of chart analysis, by brokerage letters, by advisory publications, and all this is happening not only here in the US, it is happening around the world. What I mean is that there are investors in England, Japan, Hong Kong, and Holland who are trying to figure out ("beat") the markets. It really is a different situation now than anything ever seen before.

So what is the net result? I feel that the net result is that the short term is becoming very complex and unreliable as far as trading is concerned. Price trends reverse, they are erratic, they whip-saw as never before (there are too many people speculating for short-term profits). Then there are long periods where traders become exhausted (read "disgusted") with one item or with one group and nothing seems to happen. The items go dead.

To my mind all this suggests that investors should put more confidence in, and increasing emphasis on, *the long (primary) trend of the various markets. The primary trend in any item is the most reliable and the most difficult to manipulate.* The great profits will come from those who are willing to invest with the primary trend and from those who are willing to stay with the primary trend (regardless of whether they are dealing with gold, bonds, or stocks).

I must say that I am rather uncomfortable with this stock market. Almost everyone agrees that regardless of what irregularities may now be occurring, Dow 3,000 or Dow 3,500 is "only a matter of time." Yet I keep reminding myself that the Utility Average topped out seven months ago, the A-D topped out four months ago, the market appears tired, and investors' confidence (at least for the longer term) seems unshakably bullish.

The good new is also out about corporate earnings. Earnings will be up 20% or more for 1987, and at this point everyone and his brother knows it -- certainly Wall Street knows it. So the happy news about earnings is already built into the market's price structure. But yesterday's good news and today's good news doesn't make a bull market.

But I don't want to be too much of a crank, even in today's crazy mixed-up atmosphere. So let me sum it up this way: In the absence of a bear signal from either Dow Theory or my PTI, I'll remain hopeful about this market. But I just wanted to tell subscribers that I'm not enamored of this market either.

Here's a final thought. The broad S&P 400 Industrial Average is currently selling for 43 times its dividends or 43 times its return on investment. But you can buy a Treasury bond for 11 times its interest or return on investment. Are (variable) stock returns worth four times (guaranteed) highest-grade bond returns? You've got to be one hell of an optimist to believe it.

NEXT MAILING: August 12